

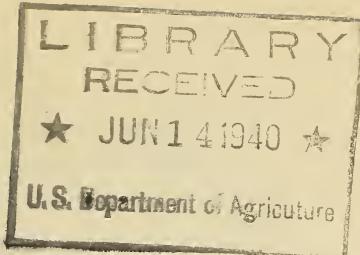
Historic, Archive Document

Do not assume content reflects current scientific knowledge, policies, or practices.

1
F223
mg

Volume as a key to Successful

COOPERATIVE GINS



"Talking it over" is usually a preliminary step to cooperative success.

ALTHOUGH a cooperative cotton gin usually charges the same ginning rate as other gins in the neighborhood, the cooperative expects to save for its members a part of this charge. If the initial ginning rate itself were the only thing to be considered, there would be little difference between the cooperative gin and other gins.

In the cooperative, however, the initial ginning rate is not the important thing. This is true even when the cooperative rate is higher. The important point, under any circumstances, is the amount of money which the cooperative saves the member. If it can gin his cotton at a lower operating cost than the "going rate," the difference is a saving which belongs to the grower.

"But if the cooperative can save its members money," it may be asked, "why doesn't it charge a lower ginning rate to begin with?"

There are several reasons why this usually is not done.

In the first place there is no way of knowing until the end of the season just how much its per-bale expense will be. No gin operator can guess this figure in advance. The practice, therefore, is to set a ginning rate which will cover the probable expense and—in the case of privately owned commercial gins—leave some money over for profits to the owner. In the case of a cooperative gin, any money left over above the operating costs also belongs to the owners. The distinction is that in the cooperative the farmers themselves are the owners, and the earnings represent the savings they gain from operating their own gin—savings in proportion to the amount of business handled for each one.

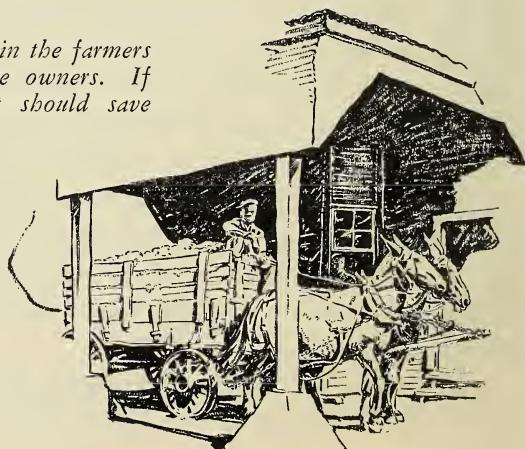
These savings may be returned to the members as cash patronage dividends or retained by the cooperative to increase its capital. The savings which are not paid in cash should be distributed in shares of stocks, other certificates, individual book credits, or by some other recognition of individual equities.

Efficiency Is the Measure of Value

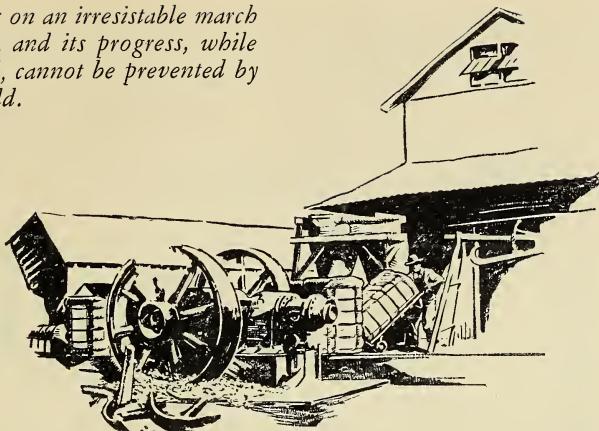
A cooperative gin is similar to any other piece of machinery that a farmer may own for his own use. If it is used efficiently it should save him money. If it is not used efficiently it will run up his expense.

The ginning rate which he pays, of course, has nothing whatever to do with whether the gin is operated efficiently or inefficiently. In other words, it has nothing to do with whether the gin saves him money or runs up his costs. No matter what rate he pays, he gains all the savings

In a cooperative gin the farmers themselves are the owners. If used efficiently it should save them money.



"All machinery is on an irresistible march to the junk heap, and its progress, while it may be delayed, cannot be prevented by repairs."—Hatfield.



from efficient operations—and he will fail to get the savings if the savings are not earned. The same is true with respect to the handling of bagging and ties, cottonseed, or other products.

The matter of efficient operations, therefore, is the most important concern of the cooperative gin member. Efficient operations, in turn, depend largely upon the volume of business which a gin handles.

Nearly everyone has some knowledge of the effect of volume on the per-bale expense of running a cotton gin. They know that the bigger the volume, the lower the cost per bale—at least up to a certain point. Not everyone, however, has definite information on the differences in costs at different volumes. These differences are clearly shown in the table on page 4 which is made up from 669 annual expense records from 231 gin associations in Oklahoma and Texas during one or more of four seasons.

These figures emphasize the importance of volume for the cooperative gin—if it is going to accomplish its purpose of saving money for its patrons. Cooperatives that averaged 500 bales had a per-bale cost of \$11.21. Those that ginned an average of 1,000 bales had a cost of \$6.66; those that ginned 1,500 bales, \$5.15. Additional volume lowered the costs still farther until the average cost for gins with a volume of 6,000 bales was down to \$2.86 per bale.

It will be noticed, also, that while the cost per bale declines as the volume increases, the amount of the decline grows less and less. The gin with only a 500 bale volume, for example, could cut its costs according to this table by about \$4.55 per bale by adding another 500 bales to

Average ginning expense per bale of 5-80 gin plants by volume ginned. Oklahoma and Texas Cooperative Gins Seasons 1932-33 to 1935-36

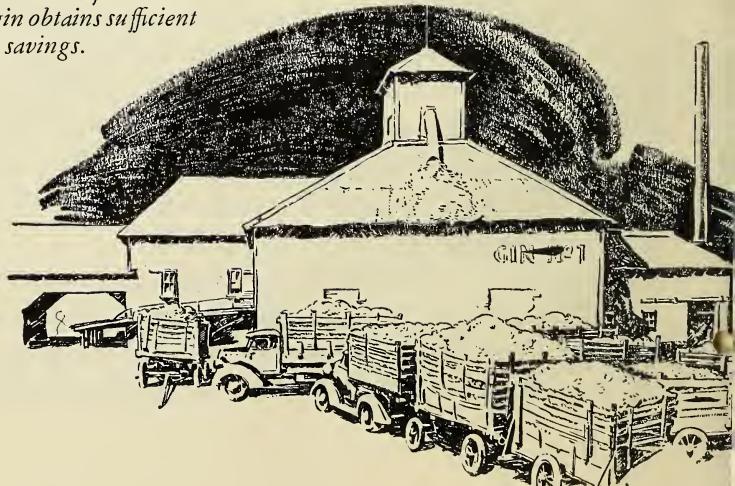
NUMBER OF BALES GINNED	AVERAGE TOTAL EXPENSES PER—	
	100 Pounds of Seed Cotton (in cents)	Bale of 1,800 pounds of seed cotton (in dollars)
500	62.3	11.21
1,000	37.0	6.66
1,500	28.6	5.15
2,000	24.4	4.39
2,500	21.9	3.94
3,000	20.2	3.64
3,500	19.0	3.42
4,000	18.1	3.26
4,500	17.4	3.13
5,000	16.8	3.02
5,500	16.3	2.93
6,000	15.9	2.86

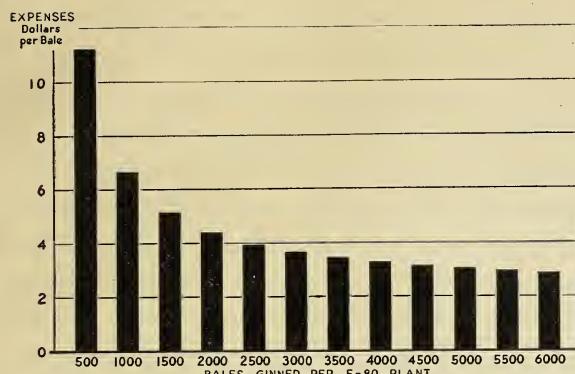
NOTE.—Depreciation on machinery and equipment is included as an item of expense. Interest on borrowed capital, dividends on invested capital, loss on bad debts, and income taxes are not included as expenses.

its volume. When it came to adding still another 500 bales, the additional saving would be \$1.51 per bale.

On the other hand, according to the figures, the cooperative with a 5,500 bale volume gains a saving of only 7 cents a bale by increasing its volume to 6,000 bales. It is obvious that when no appreciable

One of the member's chief interests is to see that his gin obtains sufficient volume to assure savings.





Cost per bale grows less as volume is increased, until at the higher volumes the costs tend to level off.

decline in per-bale costs results from adding more volume; the cooperative has all the volume it needs. The most efficient volume for a five-stand plant appears to be somewhere between 4,000 and 5,000 bales.

Ginning Rates Should Be Above Costs

Even though the cost of ginning depends largely on volume and has nothing to do with the rate paid for ginning, it is possible that a cooperative gin may charge an initial rate which is below its cost.

The table of figures shows, for example, that the gin with a volume of 1,500 bales has an average cost of 28.6 cents per hundredweight. If this gin's rate were 25 cents a hundred pounds, its charge would be 3.6 cents per 100 pounds of seed cotton, or about 65 cents per bale less than its cost. Similarly, at a 30 cent per hundred rate the 1,000-bale gin with a cost of 37 cents would lack 7 cents per 100 pounds of seed cotton, or about \$1.25 a bale of collecting enough to cover its costs.

In a case of this sort the cooperative would be in the red on its ginning operation. Its owners, who are the farmer-members, would either have to make up the difference in cash or their equity in their plant would be reduced just that much. This is just another way of saying that the ginning rate itself is not the important thing—because if the ginning rate is higher than the costs, the members receive this difference and if the ginning rate is lower than costs, they must make up the difference.

As for the gin itself, the object is not simply to collect enough in ginning charges to equal its cost. Its object should be to get the per-bale cost of operating down as low as possible consistent with a good

job of ginning. As indicated by the chart, a five-stand plant should have a minimum of 2,500 bales to operate at comparatively low cost.

With a smaller three- or four-stand plant it is of course not necessary to have as much cotton to operate the plant at maximum efficiency, and with a double plant it is necessary to have more. In other words it will cost somewhat less per bale to gin 2,500 bales in a three- or four-stand plant than in a five-stand plant, and somewhat more to gin the same volume in a double plant. Any plant, large or small, operates at lower per-unit cost when it is handling its full capacity.

When the same volume of cotton is to be ginned, the per-bale cost tends to vary with the number of stands and saws in the plant. The number of bales which a plant of any size can gin in a given period is a measure of its capacity. The capacity of a gin is largely determined by the number of gin stands and saws per stand.

Benefits Not Confined to Savings

Benefits from a cooperative gin are by no means confined to the direct savings which it earns for its patrons. Improved ginning services which it helps to bring about may be equally important to the community.

A cotton producer is interested in the net value of the lint and the seed above the cost of ginning. If the existing ginning facilities in a community are such that the value of the lint is reduced by improper ginning, a well-equipped cooperatively owned gin plant may pay substantial returns in quality of service, even though its rates are higher than those of other gins. Apart from that, a cooperative gin may set the pace for better services through all the gins in its locality.

A member's investment should be somewhat in proportion to the number of bales he gins.



For this reason the benefits of a cooperative cannot be measured on a temporary basis. After a cooperative gin is established, consideration should be given to the ginning conditions that might exist in its absence. Competing gins may for a time charge ginning rates that are below cost or pay excess prices for cottonseed and cotton. The purpose of such practices may be an attempt to force the cooperative to do likewise, or to attract members from the cooperative. In either case, if the cooperative fails, there is likely to be a reestablishment of charges and prices that are profitable to the commercial gins.

The Member's Interest In His Cooperative

From what has been said it is obvious that one of the member's chief interests and responsibilities in his cooperative is to see that it has sufficient volume to enable it to operate at a saving. A second point is to see that it is adequately financed.

In the matter of increasing volume the solution is additional members. In any cooperative that is operating below the capacity of its plant, every member owes it to his own best interests to make himself a membership committee of one. At the same time, and in the same connection, a member may sometimes do his cooperative a favor by fighting against enlarging the plant or buying an additional plant, unless the volume at hand is considerably larger than the existing plant's normal capacity.

In financing the gin the amount of capital furnished by each member should be somewhat in proportion to the number of bales he gins. Although a cooperative usually can borrow some of the money to finance its plant and operations, practically all of the capital eventually should be contributed by the members.

The "revolving" plan of financing is gaining in popularity with cooperative gins as well as with other kinds of cooperatives. Under this plan some additional capital is obtained from the active members each year. Two methods are used to obtain additional capital from members after the gin is started.

The first and most desirable method is for each member to make a small capital investment of another dollar or two each time he gins a bale of cotton. This amount can either be deducted from the seed rebate check or added to the amount charged for ginning. This is not an expense or cost to the member but an investment. The second method of raising additional capital is for the association to keep all

or part of the earnings or savings for capital purposes. Just as a part of the earnings of a farm may be used to cut down its debt and build up its capital, a part of the earnings of a cooperative gin is in this way used to increase the members' equity in their gin property.

When enough capital has been accumulated by either or both of these methods to pay off the money originally borrowed to buy the gin plant, the cooperative begins to pay back the capital investment of members in the order in which it was invested. Thus the members are continually buying their gin plant from themselves. This automatically keeps the investment of each member in proportion to his volume. New members have to furnish their share of the capital and withdrawing members finally get back all of their investment. The ownership of the association is always in the hands of its active members and continually revolving.

This leaflet is based on studies by Otis T. Weaver, Omer W. Herrmann, John S. Burgess, Jr., and U. H. Prickett. Further details are contained in Circular C-109, "Organizing a Cooperative Cotton Gin"; Bulletin 12, "Analysis of the Business Operations of Cooperative Cotton Gins in Oklahoma"; and Circular C-112, "Development of Cooperative Cotton Ginning," copies of which may be obtained, while available, from—

Information and Extension Division
Farm Credit Administration
United States Department of Agriculture
Washington, D. C.